TRAFFORD COUNCIL

Report to: **Accounts & Audit Committee – 21st November 2024**
Executive – 18th December 2024

Report for: **Information**

Report of: **The Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Report Title

Treasury Management 2024-25 Mid-Year Performance Report

Summary

This report gives Members a summary of the Treasury Management activities undertaken for the first half of 2024/25 as follows;

Debt Activity:

- The level of external debt remained unchanged at £332.8m from 31 March to 30 September 2024,
- Gross loan interest costs totalling £8.9m are to be contained within the current year budget provision,

Investment Activity:

- The level of investments reduced from £47.8m at 31 March to £21.5m at 30 September 2024,
- Estimated external investment interest to be earned for 2024/25 of £2.12m is £1.28m above the £0.84m current year budget requirement,
- The average rate of return achieved during the period April to September 2024 was 5.17%, or 0.06% above the average comparable performance indicator 1 Month Sterling Overnight Index Average (SONIA) interest rate of 5.10%.

Prudential indicators:

- The Council complied with its legislative and regulatory requirements and
- There were no breaches of prudential indicators.

Recommendations

That the Accounts & Audit Committee & Executive be requested to:

1) Note the Treasury Management activities undertaken in the first half of 2024/25.
2) Note the amended Minimum Revenue Provision Statement attached in Appendix C, to be ratified and approved by Council in February 2025.

<u>Contact person for background papers and further information:</u>

Name: Frank Fallon
Background papers: None

CORPORATE PRIORITIES AND GOVERNANCE CONSIDERATIONS	
The Best Start for our Children and Young People Healthy and Independent Lives for Everyone A Thriving Economy and Homes for All Address the Climate Crisis Culture, Sport and Heritage for Everyone	The Treasury Management function ensures that the Council has sufficient financing available to fund the activities which support the Council's Corporate Priorities. Further any additional net interest income derived from Treasury activities can be used to support the revenue budget and front line services.
Relationship to GM Policy or Strategy Framework	Not applicable
Financial Considerations	Treasury Management impacts on the Council's budget in terms of borrowing costs and investment returns. As part of the Council's bi-monthly Revenue monitor reports, the P6 monitor reported an estimated underspend for 2024/25 of £0.96m against the original budget of £1.89m. This surplus will contribute towards the Council's overall budget position.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Ministry of Housing, Communities and Local Government (MHCLG) guidance, Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour
Sustainability Implications	The Investment Strategy was updated in February 2024 to confirm that the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.
Resource Implications e.g. Staffing/ICT/Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of

	capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable
Socioeconomic duty Implications	Not applicable

Executive Summary

- This report provides Members with a summary of the treasury management activities undertaken during the first half year of 2024/25.

Economic position (Section 2)

- There has been some modest economic growth in the UK. In Q2 2024, the economy expanded by 0.5%.
- CPI Inflation fell to 1.7% in September 2024 from 2.3% in April.
- The Monetary Policy Committee (MPC) decreased the Bank Rate in August 2024 from 5.25% to 5.00%, with a further reduction to 4.75% in November 2024.

Debt (Section 5)

- Total loan debt remained unchanged at £332.8m from 31.03.2024 to 30.09.2024
- There were no new loans taken during this period.
- Total external loan interest of £8.9m is forecasted to be paid in the year based on current debt levels. Of this, £2.7m relates to the Council’s Asset Investment Strategy and is funded from investment income received.
- The average rate of interest payable at 31.03.2024 to 30.09.24 was 2.67%

Investments (See Section 6)

- The level of investments reduced from £47.8m at 31.03.2024 to £21.5m at 30.09.2024 a net movement of £26.3m.
- The Rate of Return for all investments during the first half of 2024/25 was 5.17% which is above the recognised performance indicator of the 1 month SONIA which was 5.10%.
- Estimated external investment interest to be earned for 2024/25 of £2.12m is £1.28m above the £0.84m current year target.
- All investments were repaid on time without issue and placed in accordance with the Council’s approved strategy.

Prudential Indicators and limits (Section 8)

- No breaches to any of these limits occurred during this period.

1. BACKGROUND

1.1. This report has been produced in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (2017) which stipulates that the Council receives 3 separate Treasury Management reports on an annual basis as follows;

- 3 year Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy (issued February),
- Mid-year Review (this report) and
- Performance update, covering activities undertaken during the previous financial year

1.2. The treasury management operation ensures;

- The Council's cash flows are well planned and funded,
- That all surplus monies are invested in low risk counterparties, providing sufficient liquidity before considering investment return,
- All new borrowing required for managing the financing of the Council's multi-million pound capital programme is taken in the form of either long or short term loans or using longer term cash flow surpluses and
- That debt previously taken is restructured when opportunities arise to meet Council risk or cost objectives.

1.3. The Treasury Management Strategy Statement, for 2024/25 was approved by Council on 15 February 2024.

2. MAJOR ECONOMIC HEADLINES

2.1. A summary of the main economic headlines which occurred during the first half of 2024/25 are outlined below:

- CPI Inflation fell to 1.7% in September 2024 from 2.3% in April, and 2.2% in August. The largest downward contribution to the monthly change in both CPIH and CPI annual rates came from transport, with larger negative contributions from air fares and motor fuels; the largest offsetting upward contribution came from food and non-alcoholic beverages.

- The Bank of England’s Monetary Policy Committee cut its Bank Rate in August 2024 by 0.25%, from 5.25% to 5.00%, and did so again to 4.75% at its meeting in November 2024. Further cuts are likely, although market expectations for the Bank Rate in 2025 have ranged from 3.6 to 4.7 per cent, underscoring the continued uncertainty around the monetary policy outlook.

- UK GDP grew by 0.5% in Q2 (April to June) 2024, with a growth of 0.4% expected for Q3. Having stagnated last year, the economy is expected to grow by 1.0% in 2024, rising to 1.5% in 2025, and 1.25% in 2026.

- Gilt yields have remained consistent throughout the year, with limited movement from the position in April 2024. Current rates at 30/09/2024: 5 Year 3.76%, 10 year 4.03%, 20 year 4.48%

- The UK employment rate (for people aged 16 to 64 years) was 75.0% in June to August 2024, above estimates of a year ago, and increased in the latest quarter.

3 INTEREST RATES

3.1. The Council's treasury management advisors Arlingclose, provide interest rate forecasts periodically through-out the year and the table below outlines the latest average forecasted rates, as issued in September 2024, for the periods stated:

	2024-25 Original Forecast %	2024-25 Revised Forecast %	2025-26 Latest Forecast %	2026-27 Latest Forecast %
Bank Rate	5.06	4.81	3.25	3.00
Investment Rates 3 month	5.16	4.84	3.31	3.14
PWLB Loan Rates				
5 Year	4.50	4.45	4.21	4.28
10 Year	4.60	4.65	4.51	4.56
20 Year	5.00	5.09	5.00	5.08
50 Year	4.69	4.73	4.60	4.68

3.2. Arlingclose, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, taking Bank Rate down to around 3% by the end of 2025/26.

3.3. Gilt yields and subsequently PWLB rates are expected to stabilise with slow reduction over the next few years.

4. TREASURY POSITION

4.1. The Council's investment and debt positions at the beginning and mid-way through the current financial year are listed in the table below;

	31 March 2024		30 September 2024	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.25)				
PWLB[1]	0.1	2.80	0.1	2.80
Market	0.0	0.00	0.0	0.00
Sub-total	**0.1**	**2.80**	**0.1**	**2.80**
Long term (payable after 31.03.25)				
PWLB	311.7	2.53	311.7	2.53
Market	21.0	4.79	21.0	4.79
Sub-total	**332.7**	**2.67**	**332.7**	**2.67**
Total debt[2]	**332.8**	**2.67**	**332.8**	**2.67**
INVESTMENTS				
Short term (less than 1 year duration)				
- Instant access	31.2	5.26	13.2	4.99
- Call accounts	0.0	0.00	0.0	0.00
- Term deposit	0.0	0.00	0.0	0.00
Sub-total[3]	**31.2**	**5.26**	**13.2**	**4.99**
Long term (greater than 1 year duration)				
- CCLA	4.6	5.34	4.5	5.09
- Asset Investment Strategy (AIS)[4]	12.0	n/a	3.8	n/a
Sub-total	**16.6**	**5.34**	**8.3**	**5.09**
Total Investments	**47.8**	**4.89**	**21.5**	**4.79**

[1]PWLB Annuity payment

[2]Excludes accrued interest at year end.

[3]Information in the above table reflects the level of funds available on a temporary basis for investment purposes which fluctuate daily due to the timing of precept payments, receipt of grants, spend progress on the capital programme and the repayment of monies borrowed.

[4]Albert Estate; non-capital AIS investment

5. BORROWING POSITION

5.1. At 31 March 2024, the level of external debt was £332.8m, which was lower than the Capital Financing Requirement (CFR) at £419.4m and reflects that the Council was under borrowed by the difference of £86.6m as at that date. In effect the Council had used surplus cash balances to finance capital expenditure to the value of £86.6m.

5.2. This level of under borrowing is not considered sustainable due to the impact on the Council's cash balances. Therefore, external debt will be used to finance in-year borrowing requirements and when asset strategy investments are repaid these will be replaced by external debt facilities at the time.

This externalisation of this debt will be funded by existing provisions within the Treasury Management and Asset Investment Strategy revenue budgets. The situation will be continued to be monitored, with considerations given to movements in interest rates and future capital plans. The decision to borrow will be taken by the Director of Finance and Systems per delegated powers, and in accordance with the approved Treasury Management and Debt Strategies.

5.3. During the first half of 2024/25, loans to the value of £0.1m were repaid relating to the PWLB Annuity loan with no new loans being taken. As a result of this the Council's external loans has maintained a balance of £332.8m as per the table below:

Loans	31 March 2024 £m	Borrowed £m	Repaid £m	30 September 2024 £m
Short Term – (less than 1 Year duration)*	0.1	0.0	0.1	0.1
Long Term – (more than 1 Year duration)	332.7	0.0	0.0	332.7
Total	**332.8**	**0.0**	**0.1**	**332.8**

*Includes quarterly repayments of annuity loan

5.4. The table below provides an outline of the Council's loan portfolio at 30th September 2024;

Lender	No. of Loans	Interest rate range	Maturity	Total Principal £m
PWLB	18	1.88% to 9.00%	Oct 2026 to Oct 2069	311.8
Market (long term)	3	4.41% to 4.99%	Aug 2042 to Dec 2067	21.0
Total	**21**			**332.8**

5.5. As highlighted in the above table the Council holds £21.0m of Market loans, which are held at fixed rates of interest.

5.6. Based on current debt levels, the total loan interest costs for 2024/25 are currently forecasted to be £8.9m. Of this, £2.7m is funded by returns generated from the Council's Asset Investment Strategy.

5.7. No new borrowing has been undertaken during the first half of the year.

5.8. The below table shows the maturity of loans against the limits set by the Council in its Debt Strategy for 2024/25.

Maturity structure of all external loan debt as at 30th Sep 2024	Lower limit %	Upper limit %	Actual %
Under 12 months	0	40	0
12 months to 2 years	0	40	0
2 years to 5 years	0	40	20
5 years to 10 years	0	40	3
10 years to 20 years	0	40	5
20 years to 30 years	0	40	1
30 years to 40 years	0	70	45
40 years and above	0	90	26

6. INVESTMENT POSITION

6.1. Whenever the in-house treasury management team places any temporary surplus funds with an external institution, it does so in compliance with the Council's Annual Investment Strategy, approved by Council in February 2024.

6.2. The table below highlights the level of investment transactions carried out during the first half of 2024/25:

Investments	31 March 2024 £m	New £m	Repaid £m	30 Sept. 2024 £m
Instant Access	31.2	273.6	291.6	13.2
Call Accounts	0.0	0.0	0.0	0.0
Term Deposit	0.0	0.0	0.0	0.0
CCLA*	4.6	0.0	0.0	4.5
Strategic Investment programme	12.0	0.0	8.2	3.8
Total	**47.8**	**273.6**	**299.8**	**21.5**

*Estimated movement in valuation of the funds invested at that date.

6.3. The movement in the level of investments 31 March 2024 to 30 September 2024 reflects the day-to-day cash flow activities, including balances applied to fund short term capital spend thereby enabling loan servicing costs to be kept to a minimum.

6.4. All the Council's investments maturing during the first half of the financial year were repaid on time without any difficulties.

6.5. A breakdown of the Council's investments as at 31 March 2024 compared to 30 September 2024 per each classification of institution is provided below for reference:

Sector	31 March 2024 £m	30 September 2024 £m
UK Banks	1.3	1.8
Non UK Banks	0.0	0.0
Building Societies	0.0	0.0
Money Market Funds	29.9	11.4
Local Authority	0.0	0.0
Other - CCLA	4.6	4.5
Strategic Investment programme	12.0	3.8
Total	**47.8**	**21.5**

The maturity structure of the investment portfolio was as follows:

Period	31 March 2024 £m	30 September 2024 £m
Instant Access	31.2	13.2
Call Accounts	0.0	0.0
Up to 3 Months	0.0	0.0
3 to 6 Months	0.0	0.0
6 to 9 Months*	0.0	0.0
9 to 12 months	0.0	0.0
Over 1 year	16.6	8.3
Total	**47.8**	**21.5**

*Investments in the Instant Access period reflect the current cash flow requirements.

6.6. The table below highlights the results of the short term investment activities and shows the Council performance against the 1 month SONIA benchmark, a recognised market performance indicator.

Average level of short term investments (up to 1 yr.) 1 Apr to 30 Sep £m	Average interest rate earned %	Average 1 month SONIA (*) rate %	Over achieved interest against SONIA £k
44.9	5.17	5.10	14

*SONIA (Sterling Overnight Index Average) is administered and published by the Bank of England and is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

6.7. With regards to the Council's two long term investments totalling £8.3m, details of these investments are provided below:

- **Church Commissioners Local Authority (CCLA)** - In September 2015, the Council invested £5m, for a minimum period of 5 years in the Local Authority Property Investment fund, managed by CCLA. At 31 March 2024 the Council's investment was valued at £4.55m and by 30th September 2024 this had reduced to £4.54m. The level of dividends received for the first half of 2024/25 generated an annualised return of 5.58%.

  From April 2018, local authorities were required to comply with the new standard International Financial Reporting Standard 9 (IFRS 9): Financial Instruments. Changes brought by IFRS 9 meant that more financial assets, such as the Council's CCLA investment, would be required to have any annual changes in value (known as "fair value movements") recognised as profit or loss, whereas before movements for such instruments may have been held in a reserve with any movement in value only affecting general fund balances when sold.

  Due to the nature of these losses in value being required to be recognised in the revenue accounts of Local Authorities, the government introduced a statutory override to allow for any losses to be reversed out to a reserve. This statutory override will expire in March 2025. Prior to the expiry of this override the Council will need to decide whether it should disinvest from the CCLA to mitigate the risk of negative valuations. This decision will be taken by the Director of Finance and Systems in due course, in accordance with delegated powers and the approved Treasury Management Strategy.

- **Strategic Investment Programme** - In August 2019 the Council entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on four prominent income producing properties known as Albert Estate within Manchester City Centre. In April 2022 an early repayment instalment of £5.6m was received reducing the value to £12.0m, and in July 2024 a further £8.2m was received with an extension of the facility granted to March 2025. The balance is currently £3.8m. All interest repayments on the facility have been made in full and on time.

6.8. Estimated external investment interest to be earned for 2024/25 of £2.12m is £1.28m above the £0.84m current year budget requirement.

6.9. As shown by the interest rate forecasts in section 3, investment return rates are decreasing and are expected to further reduce over the next 2 years. The Councils investment return over the next three years will be determined on these rates and the levels of cash that is available to invest.

6.10. For reference Appendix A details the Council's investments, as at 30 September 2024.

7. RISK BENCHMARKING

7.1. In accordance with the Code and MHCLG Investment Guidance, appropriate security and liquidity benchmarks are used by the in-house treasury management team to monitor the current and future potential risk conditions enabling any corrective action to the strategy to be applied if required.

7.2. These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria.

7.3. During the first half of 2024/25 it can be reported that no benchmarks, which were set in the Strategy report in February 2024, were breached as shown from the table below.

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on rates issued by the 3 main credit rating agencies.	Max 0.03%	Max 0.00% (AAA MMF - S&P)
Liquidity – investments available within 1 week notice	£5m min.	Achieved
Liquidity – Weighted Average Life of investments (ex CCLA Property Fund)	6 months	This was not breached and as at 30 September was 1 day.
Yield – Investment interest return to exceed 1 month SONIA rate	5.10% (Avg. 1 Month SONIA)	5.17% (All Investments 1 April to 30 Sept)
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	Non UK institutions 40%	Achieved

8. PRUDENTIAL AND PERFORMANCE INDICATORS

8.1 In accordance with MHCLG Guidance and the Prudential Code, a number of prudential indicators are in place ensuring that the Council's capital expenditure plans and borrowing remain robust, prudent and sustainable.

8.2 These indicators as set out in the Council's Treasury Management Strategy report for 2024/25 were approved by Council in February 2024 and are monitored and reported through the Council's bi-monthly monitoring reports. During the half year ended 30th September 2024, the Council has operated within these indicators and no breaches occurred. Further information can be found in Appendix B

8.3 Due to the nature of the treasury management function the Council's in-house team processes multi-million pound transactions on a daily basis and to ensure the Council's finances are protected and all associated risk kept to a minimum, robust systems and procedures have been put into place. These systems and procedures are continually reviewed by the in-house team to ensure they remain fit for purpose.

9. RELATED TREASURY ISSUES

9.1. Following three rounds of consultation, the Ministry of Housing, Communities and Local Government (MHCLG) published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). There are three main changes:

- Local authorities cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.
- Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.
- For capital loans given on or after 7th May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

  This change will result in any adverse movements in valuations (Expected Credit Losses) relating to capital loans made for investment purposes being charged to the General Fund in the financial year the credit loss is recognised removing the ability to spread any losses over the life of the asset as previously.

  This is a significant change in the Prudential Code designed to provide focus on investment risk and the implications of which will need to be considered as part of the Capital Strategy.

9.2. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the 2024/25 year.

9.3. The Council's MRP Statement has been changed accordingly, with the updated policy found in Appendix C. This Statement will be provided for approval by Council in the 2025/26 Treasury Strategy in February 2025, to be effective from 1st April 2024.

10 OUTLOOK 2024/25

10.1. The Bank of England (BOE) expects CPI inflation to increase to around 2.75% by the second half of 2025 as weakness in energy prices falling out of the annual comparison will be offset by the impacts of the announcements in the recent Autumn Budget Statement largely relating to the increase in Employers National Insurance and National Living Wage.

10.2. The Bank of England (BOE) cut interest rates to 4.75% at the November committee but signalled that a further move is unlikely before early 2025,due to the revised forecasts for CPI inflation.

10.3. Growth in the UK economy is expected to pick up from 1 per cent this year to 1.5 per cent in 2025, before easing back to 1.25 per cent in 2026.

10. RECOMMENDATIONS

10.1 That the Accounts & Audit Committee & Executive be requested to;

1) Note the Treasury Management activities undertaken in the first half of 2024/25.
2) Note the amended Minimum Revenue Provision Statement attached in Appendix C, to be ratified and approved by Council in February 2024.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations, relevant legislation and provides an overview of transactions undertaken during the first half of 2024/25. There are no other options to consider.

Consultation

There are no applicable consultation requirements in respect of this report.

Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

Finance Officer Clearance **DM**

Legal Officer Clearance **EM**

DIRECTOR'S SIGNATURE **GB**

APPENDIX A

Breakdown of Investments as at 30 September 2024

Counterparty	Amount (31 March 2024)	Amount (30 Sept 2024)	Long Term Credit Rating
	£	£	
Money Market Fund – instant access			
Aberdeen	4,150,000	1,550,000	aaa
CCLA	4,150,000	2,070,000	aaa
Federated Investors	4,790,000	1,550,000	aaa
Insight Liquidity	4,150,000	1,550,000	aaa
Invesco Aim	4,250,000	1,550,000	aaa
Legal & General	4,290,000	1,550,000	aaa
Morgan Stanley	4,150,000	1,550,000	aaa
Sub total	**29,930,000**	**11,370,000**	
Call Accounts			
Lloyds Bank	1,320,000	1,800,000	a+
Sub total	**1,320,000**	**1,800,000**	
Term Deposit			
Sub total	**0**	**0**	
Property Funds			
Church Commissioners Local Authority	4,553,854	4,537,744	n/r
Sub total	**4,553,854**	**4,537,744**	
Other			
Strategic Investment Programme	12,010,000	3,761,133	-
Sub total	**12,010,000**	**3,761,133**	
Total	**47,813,854**	**21,468,877**	

APPENDIX B

Prudential Indicators – 2024/25

The Prudential Code for Capital Finance in Local Authority was reviewed and updated following a consultation with Local Authorities in November 2021. The Code requires that the Council report and monitor Prudential Indicators on at least a quarterly basis during the financial year. The objectives of the Prudential Code and indicators are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and to support and record local decision making in manner that is publicly accountable.

The prudential indicators cover the three areas in which the Council is required to report and monitor: Capital Expenditure, External Debt, and Affordability. The indicators are approved and set by the Council in February each year as part of the wider budget setting process. These indicators are then reviewed and restated during the year as part of the periodical budget monitoring.

Summary as at Mid-Year

Capital Expenditure Indicators

Since February, the updated indicators for Capital Expenditure show a decrease £24.17m in capital spend in 2024/25. This is in-line with the reprofiling of spend within the programme, as detailed within the Period 6 Capital Monitoring Report, as certain schemes will now incur costs in later years. The expenditure for the Investment Strategy has been reprofiled to match the cashflows of ongoing property developments which the Strategy is funding, which have expenditure in the later years of the programme.

External debt indicators

The External Debt indicators for Period 6 are confirmations that the Council are operating within the agreed boundaries for Treasury Management activity as set by Council in February. The debt levels are forecast to increase due to the anticipation that the Council will borrow funds before the end of the financial year to address the level of internal borrowing.

Affordability indicators

The 'Finance Costs to Net Revenue Stream' forecast for 2024/25 is 0.1% above the forecast included in the budget. This is due to reduced levels of interest income forecast in year.

Capital expenditure indicators:

- **Estimates of capital expenditure**; Actual total capital expenditure for previous financial year and estimates of spend for the following three years. Variances found here from the approved indicator level to the current forecast level are due to revisions to the programme, reported through the regular Capital Budget Monitoring and approved by the Executive.
- **Estimates of capital financing requirement;** this reflects the estimated need to borrow for capital investment (i.e., the anticipated level of capital expenditure not financed from capital grants and contributions, revenue or capital receipts).

Prudential Indicators – Capital Expenditure	2024/25			2025/26	2026/27
Period 6 2024/25	Original Forecast	Current Forecast	Variance	Forecast	Forecast
	£m	£m	£m	£m	£m
Capital Expenditure					
Capital expenditure - General Programme	74.89	69.19	(5.70)	73.67	50.76
Capital expenditure - Investment Strategy	77.31	58.85	(18.46)	150.09	7.82
Capital expenditure - Total	**152.20**	**128.04**	**(24.16)**	**223.76**	**58.59**
Capital Financing Requirement (CFR)	**519.41**	**461.55**	**(57.86)**	**567.01**	**592.88**

External debt indicators

- **Authorised limit for external debt;** This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing “off balance sheet” leased assets onto the balance sheet in compliance with IFRS 16.
- **Operational boundary for external debt;** calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.
- **Gross debt and the capital financing requirement;** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years.

Prudential Indicators -	**2024/25**			**2025/26**	**2026/27**
Period 6 2024/25	**Approved Limit**	**Current Forecast**	**Variance to Limit**	**Approved Limit**	**Approved Limit**
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Authorised limit for external debt - Capital Programme	280.00	128.82	(151.18)	310.0	310.0
Authorised limit for external debt - Investment Strategy	370.00	260.00	(110.00)	420.0	500.0
Authorised limit for external debt - Other long-term liabilities	3.40	3.38	(0.02)	3.0	2.6
Authorised limit for external debt - Total	**653.40**	**392.20**	**(261.20)**	**733.0**	**812.6**
Operational boundary for external debt - Capital Programme	260.00	128.82	(131.18)	290.0	290.0
Operational boundary for external debt - Investment Strategy	370.00	260.00	(110.00)	420.0	500.0
Operational boundary for external debt - Other long-term liabilities	3.40	3.38	(0.02)	3.0	2.6
Operational boundary for external debt - Total	**633.40**	**392.20**	**(241.20)**	**713.0**	**792.6**
Forecast capital financing requirement (CFR)		**461.55**			
Actual external debt (£m): at 30/09/24		**332.80**			
Other long-term liabilities (PFI)		**3.38**			
Over-borrowed/(Under-borrowed)		(125.37)			
Forecast Over-borrowed/(Under-borrowed)		(69.37)			
Is Actual Debt below the CFR?		**YES**			

Affordability indicators

- **Estimates of financing costs to net revenue stream;** this indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Council's net revenue stream. This demonstrates the affordability and proportionality of that borrowing by comparing it to the Council's net revenue stream as a whole.
- **Estimates of net income from commercial and service investments to net revenue stream;** This indicator compares income from commercial investments to the Council's net revenue stream. As before, this comparison allows for consideration for the Council reliance on that income and its proportionality.

Prudential Indicators - Period 6 2024/25	2024/25			2025/26	2026/27
	Original Forecast	Current Forecast	Variance	Forecast	Forecast
	%	%	%	%	%
Affordability					
Financing Costs to net revenue stream	1.0%	1.1%	0.1%	1.8%	2.7%
Net Income for commercial and service investments to net revenue stream	8.0%	7.1%	(0.5%)	7.8%	7.2%

Affordability - Financing Costs to Net Revenue Stream (Detailed Table)	2024/25 P6 Forecast £000
Net Revenue Stream (£k)	214,039
Net Financing Costs * (£k)	2,247
Net Financing Costs to NRS	1.1%
Gross Financing Costs (£k)	16,935
Gross Investment Interest Income (£k)	(14,688)
Net Financing Costs (£k)	**2,247**
Using **Gross** Financing Costs to NRS	7.91%

The prudential indicator requires a comparison between Net Financing Costs and the Net Revenue Budget, however this does not demonstrate fully the risk due to the high levels of investment income that the Council generates. The Gross Investment Interest Income and Gross Financing Costs are more appropriate measure of risk as this is the amount of exposure the council needs to meet.

Local indicators

Local Indicators are indicators that are not statutorily required but are included in the Council's suite of capital indicators to provide additional transparency and reporting information. The indicators below relate to forecast activity and performance in the Council's Asset Investment Strategy (AIS). The rolling investment nature of the AIS means that income is forecast to decrease in later years as investments mature, to be replaced by new investments within the pipeline yet to be agreed.

The Council has previously used income from its investments to contribute to a Risk Reserve, which had a balance of £11.31m at the end of 2023/24.

Local Indicators 2024 to 2025	2024/25 £m	2025/26 £m	2027/28 £m
Asset investment Strategy			
Gross Income	13.3	14.5	13.1
Financing Costs	9.48	10.6	10.2
Risk Reserve			
Net contributions to/(from) Risk Reserve	(6.5)	(1.6)	(1.3)
Forecast Risk reserve balance at year end	4.8	3.1	1.7

Appendix C

MINIMUM REVENUE PROVISION

In accordance with the current MHCLG Guidance, The Local Authorities (Capital Finance and Accounting) Regulations 2008, and Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit to Council for approval an annual MRP Statement which sets out its policy.

The following MRP Statement has been reviewed and prepared in accordance with the Council's accounting procedures and is recommended for approval to be effective from 1st April 2024:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on the Asset Life Method (up to 50 years), using an annuity calculation in accordance with MHCLG guidance;
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on either the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with MHCLG guidance;
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Strategic Asset Investment Strategy has made equity investment with Joint Venture companies with MRP being provided and calculated on a straight line basis for periods up to 50 years or annuity basis in accordance with MHCLG guidance.
- **Use of a Capitalisation Direction:** Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Equity** – MRP for the acquisition of share capital will be calculated on a straight line basis for a period up to 20 years or annuity basis in accordance with MHCLG guidance. The Council will consider on a case by case basis the appropriateness of the application of this period against any equity investments it undertakes.
- **Lending to a third party**: In instances where the Council lends funds to a third party for non-commercial purposes, such as regeneration, the Council will treat the advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. MRP would be set aside should the Council issue a commercial capital loan, i.e. a loan for a primarily financial return.
- **Expected Credit Loss (ECL):** Should an ECL or impairment be recognised for a capital loan issued or agreed, after the 7th May 2024, then the Council will make an MRP charge equivalent to the ECL in the year in which the impairment is recognised.

Per the updated 2003 regulations, no element of the Council's CFR is excluded from consideration in the calculation of the Council's annual MRP charge save for those which are exempt per regulations. This exemption is inclusive of the provision of non-commercial capital loans.